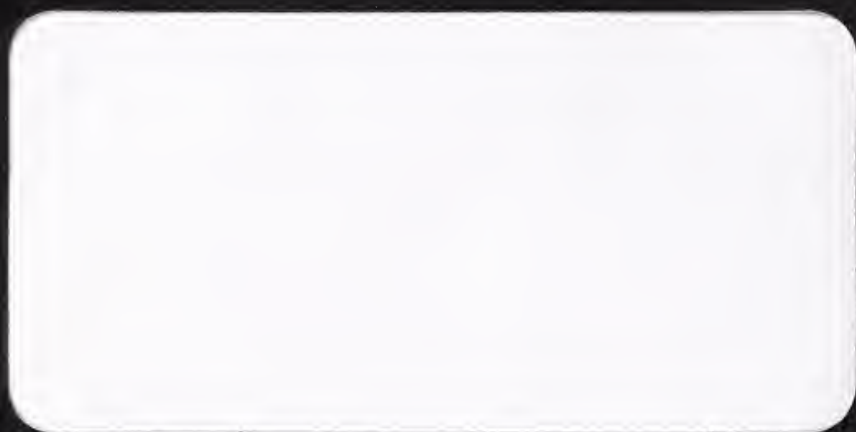


Outsourcing Presentation

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Outsourcing Presentation

for
Hoskyns Ltd.

June 17, 1992

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**U.S. Outsourcing Information Systems
Program**
(SOSOP)

Outsourcing Presentation

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California, New York, Washington D.C.,
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Emphasis on Primary Research

Experienced Senior Executives

Comprehensive Forecasts

MS-7

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Notes

SO/SI Market Analysis Research Basis

- Telephone and on-site interviews
 - 350 vendor revenue surveys
 - 30 detailed vendor profiles
 - 50 vendor interviews
 - 120 user interviews

SO-245a

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Notes

SO/SI Market Analysis Research Basis

- Contract data base
 - 160 outsourcing contracts
 - 240 SI contracts

SO-245b

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Notes

Information Systems Outsourcing

OU-83

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Notes

Outsourcing is the
contracting of information
systems processes to
external vendors.

INPUT

OU-6a

Notes

- Systems outsourcing is function oriented
- Systems integration is project oriented

SO-240

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Notes

“I haven’t lost 200 people,
I’ve gained 50,000.”

Jack Livingston,
National Car Rental

Source: *Fortune* article

OU-3a

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Notes

“IBM runs our computer center as it’s supposed to be run—as a profit center, not a cost center.”

Kathy Hudson, Kodak

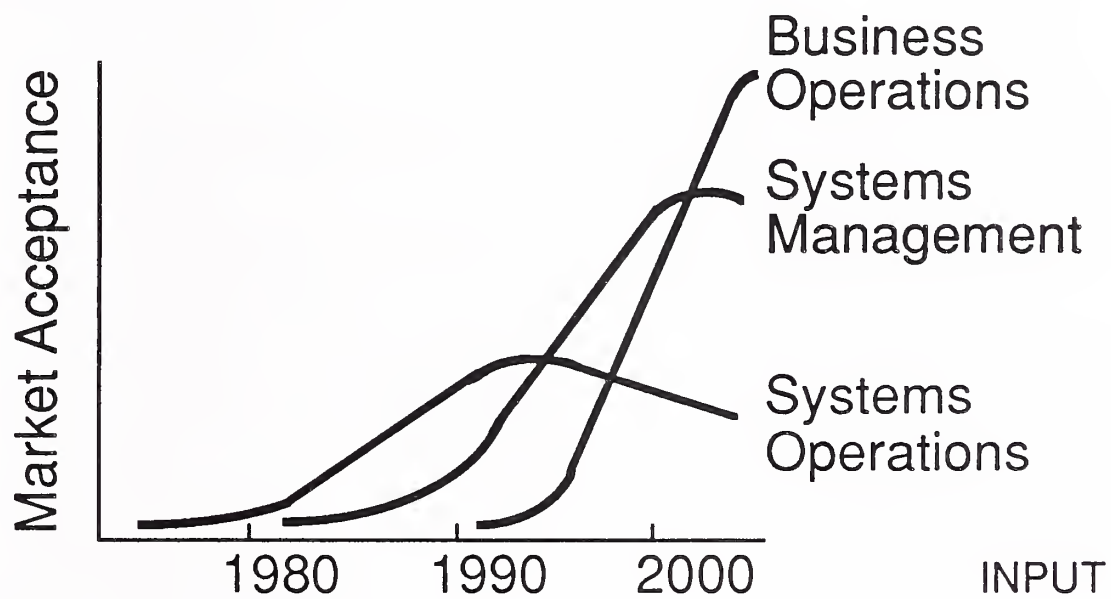
Source: *Fortune* article

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OU-2a

Notes

Outsourcing Market Waves



OU-84

Notes

U.S. Outsourcing Market Forecast

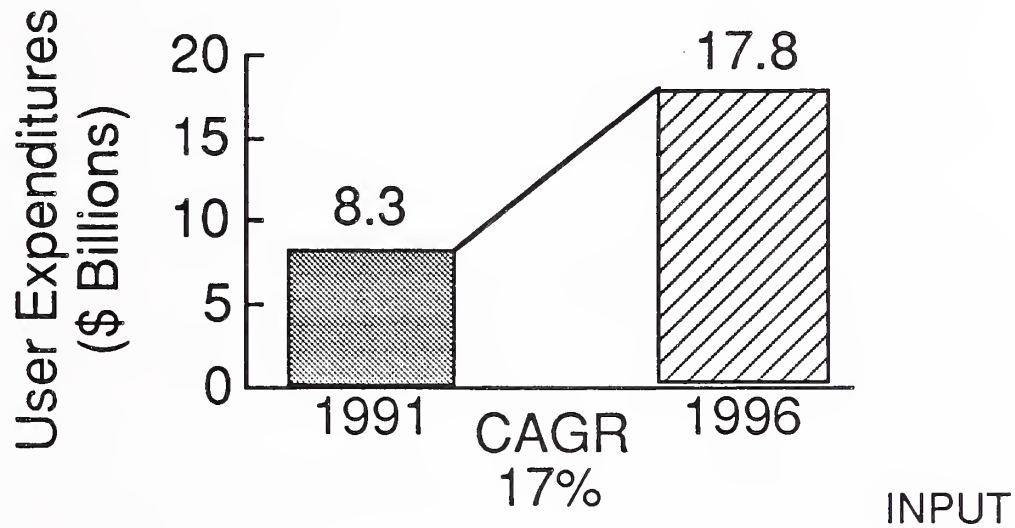
OU-85

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Notes

6/10/92

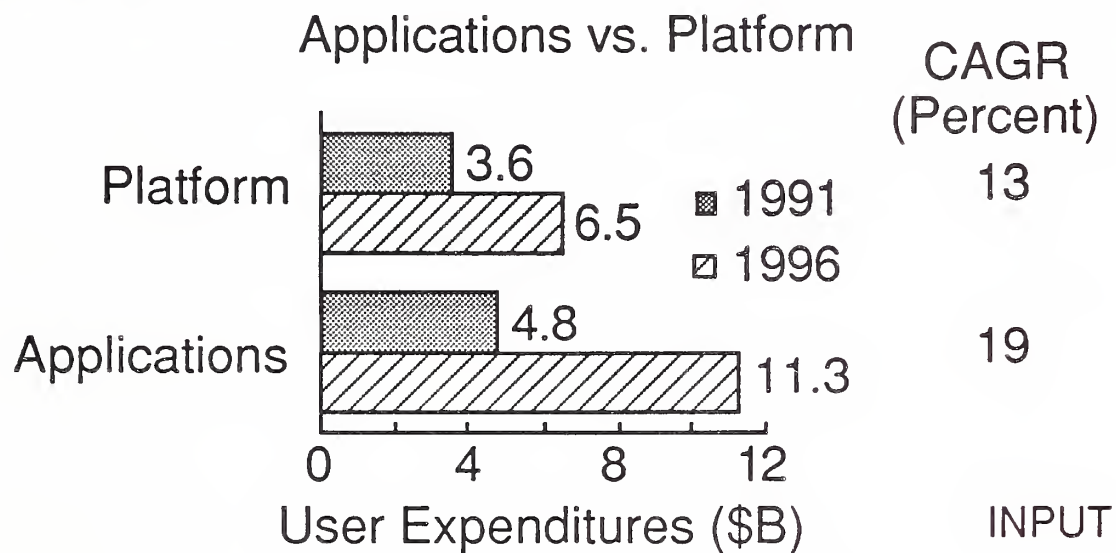
U.S. Outsourcing Market Forecast, 1991-1996



SO-19a

Notes

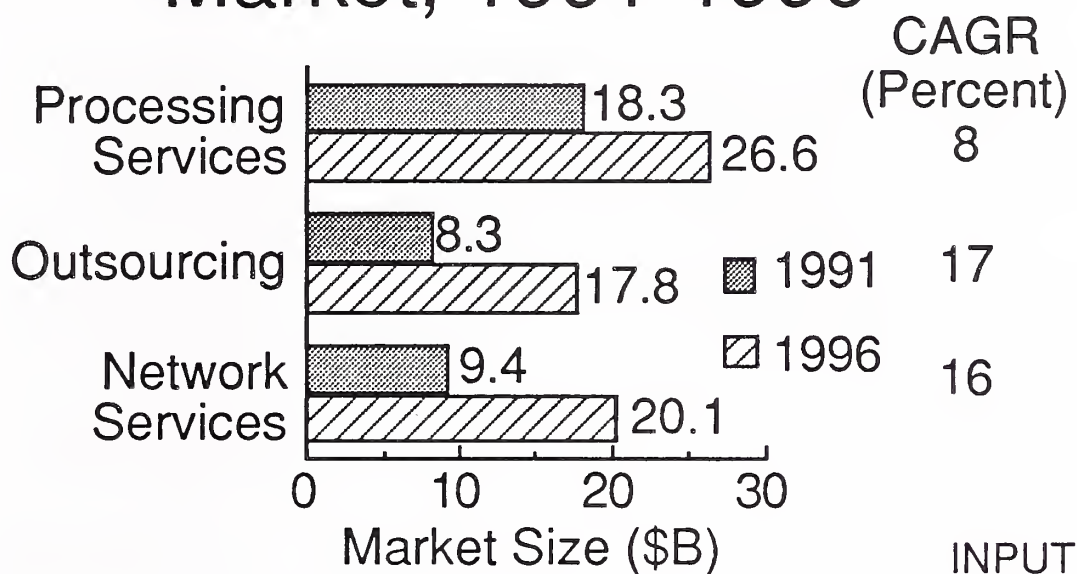
U.S. Outsourcing Market Forecast, 1991-1996



SO- 98

Notes

U.S. Information Services Market, 1991-1996



MF-4b

Notes

Outsourcing Market Trends/Issues

OU-86

INPUT

Notes

Driving Forces—Outsourcing

Category	Outsourcing
Response	Service requirements Flexible operations
Financial	Cost reduction New scales of economy
Management	Executive refocus

INPUT

OU-25

Notes

Driving Forces—Outsourcing

Category	Outsourcing
Staff	Scarcity of talents
Technology	Increasing complexity New technology

OU-24

INPUT

Notes

Inhibiting Factors Outsourcing

Category	Outsourcing
Management Fallback	Loss of control Inability to reverse decision

OU-25a

INPUT

Notes

Inhibiting Factors Outsourcing

Category	Outsourcing
Financial Staff	Uncertain savings Threat to organization

OU-25b

INPUT

Notes

Outsourcing User Issues

- Business environment
 - Critical value of information
 - Organizational impact
 - Flexibility for change

OU-25c

INPUT

Notes

Outsourcing User Issues

- Operating environment
 - Dependency on vendor
 - Long-term stability
 - Improved service levels
 - Control over operating costs

INPUT

OU-25d

Notes

Major Vendor Strategies

SICO1-JP1-37

INPUT

Notes

Leading U.S. SO Vendors

Vendor	1990 Market Share (Percent)
EDS	14
CSC	6
Systematics	3
ISSC	3

INPUT

SO- 25a

Notes

EDS

- 1990 sales - \$6 billion
- 60,000 employees
- Outsourcing market leader
- Large accounts focus

INPUT

SO-202a

Notes

EDS Outsourcing Strategy

- Maintain market dominance
- Acquire client assets
- Leverage acquired assets
 - Reservation systems
 - Manufacturing software

SO- 202b

INPUT

Notes

IBM

- 1990 sales - \$69 billion
- 374,000 employees
- World information technology leader

SO-204a

INPUT

Notes

IBM Outsourcing Strategy

- Focus marketing through ISSC
- Leverage base of experience:
 - Banking
 - Retailing
 - Manufacturing
- Early wins—platform operations

INPUT

SO- 204b

Notes

Andersen Consulting

- 1990 CY sales - \$2 billion
- 19,000 professionals
- Reexamining marketing strategies

SO-206a

INPUT

Notes

Andersen Outsourcing Strategy

- Reduce emphasis on processing
- Focus on applications management
- Use consulting as entree

INPUT

SO- 206b

Notes

Computer Sciences Corporation

- 1991 revenue - \$1.7 billion
- 22,000 professionals
- Strong acquisition activity

INPUT

SO- 212a

Notes

CSC Outsourcing Strategy

- Leverage federal experience
- Gain commercial market share
- Focus on applications processing

INPUT

SO- 212d

Notes

Vendor Strategies

- Invest in client business
- Hire client staff
- Acquire participating firms
- Develop risk containment

SO-27

INPUT

Notes

Vendor Strategies

- Provide full service
- Focus on vertical market
- Target companies in transition
- Form ad hoc alliances

SO-26

INPUT

Notes

Major Contracts

OU-87

INPUT

Notes

IBM—United Technologies

- \$1 billion over ten years (estimate)
- UT traditional in-house focus
- Platform processing, not applications
- Three UT divisions (1 data center)

INPUT

SO-241

Notes

CSC—General Dynamics

- \$3 billion over ten years
- 2,600 people transfer to CSC
- Applications management/processing
- Culture = 2 defense contractors

SO-242

INPUT

Notes

Perot Systems NCNB Bank

- \$200 million over ten years
- 240 people transferred
- Data center operations
- Started as systems integration project

INPUT

SO-244

Notes

Andersen BP Exploration (U.K.)

- \$50 million over 4 years
- 260 staff transferred
- Assume business (billing) operations

SO-243

INPUT

Notes

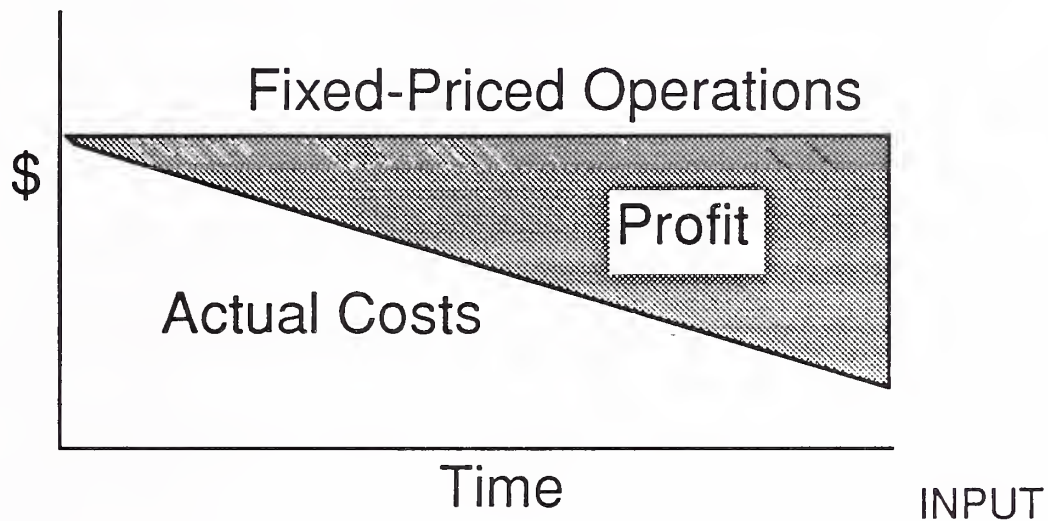
Outsourcing Contracting and Pricing

OU-88

INPUT

Notes

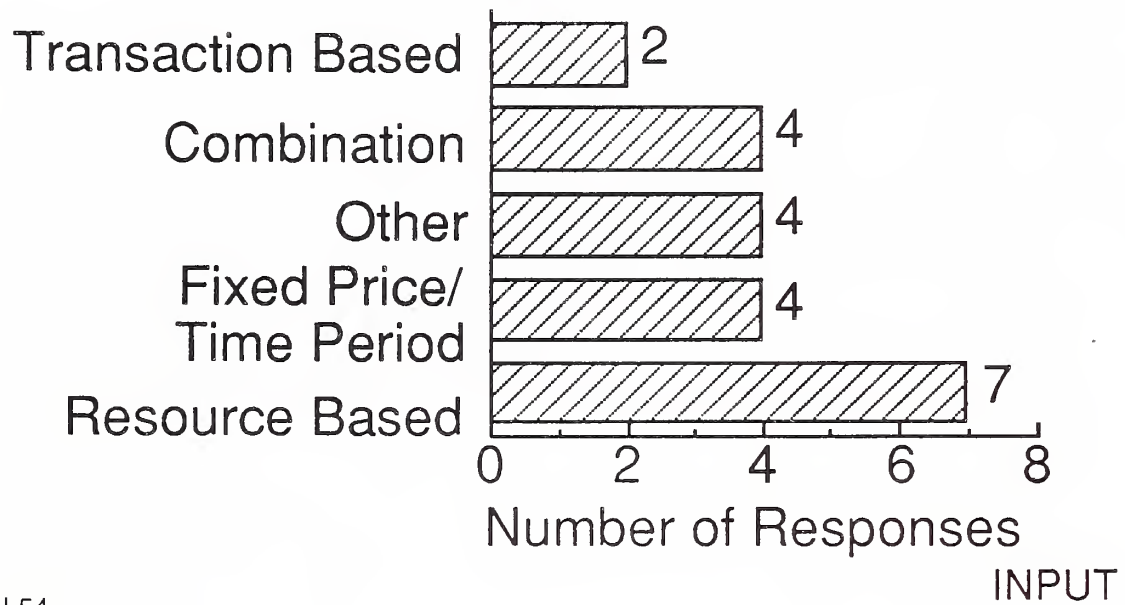
Outsourcing Efficiency Yields Profits



SO- 17

Notes

Pricing Terms



OU-54

Notes

Value Pricing Concept

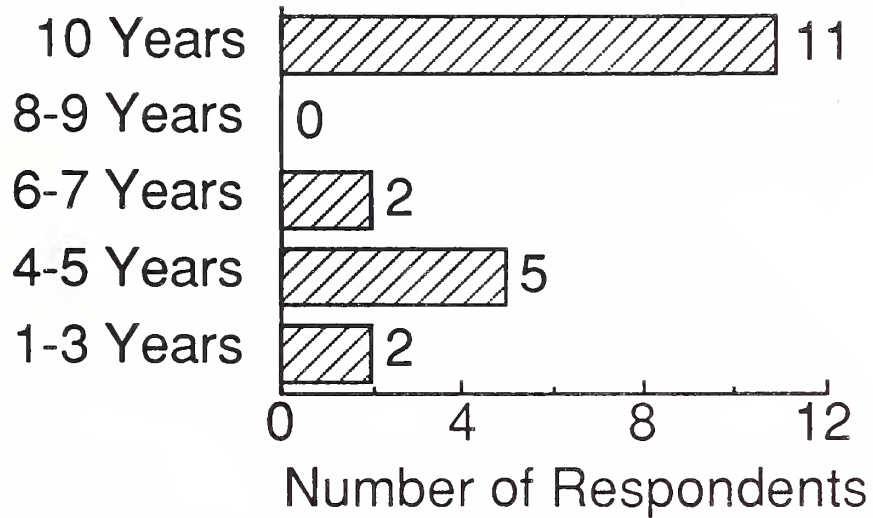
- Three components
 - Audience
 - Determine benefit
 - Cost of achieving benefit
- EDS and DEC

OU-89

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Notes

Contract Length

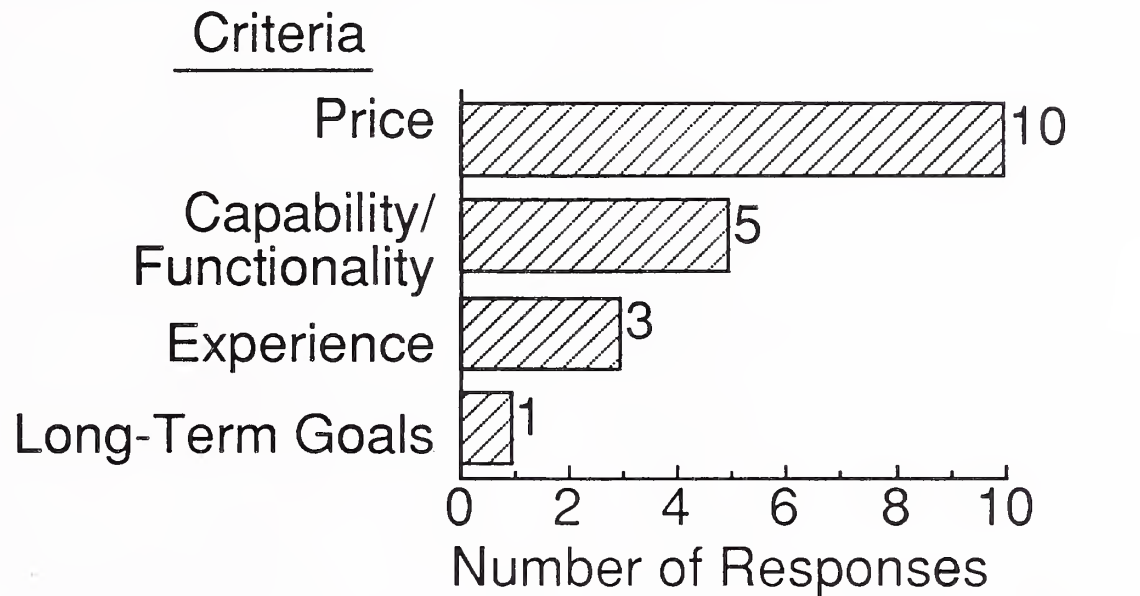


OU-53 Average contract length: 7.7 years

INPUT

Notes

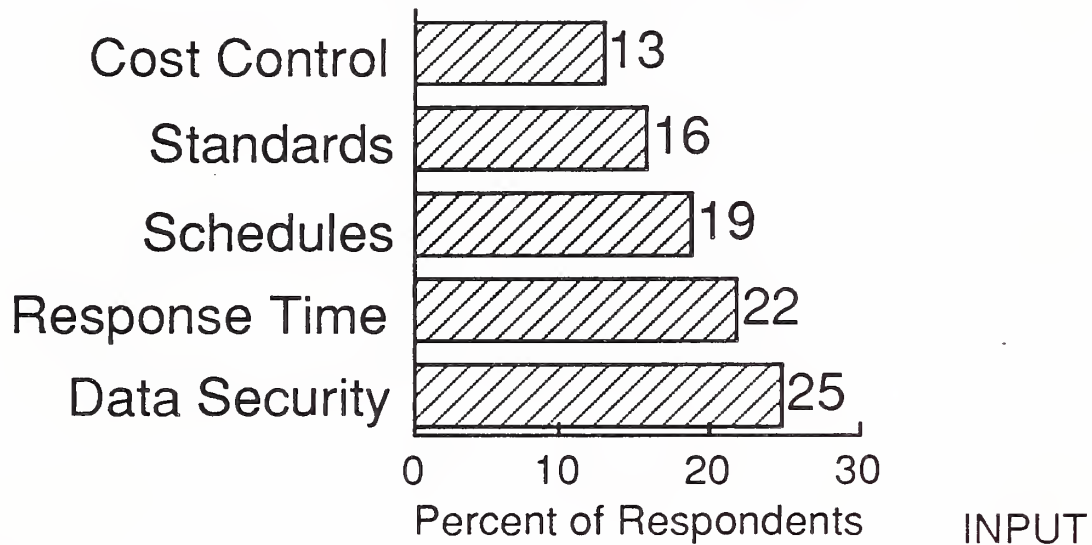
Important Evaluation Criteria



OU-52 Note: 13 respondents answered the question

Notes

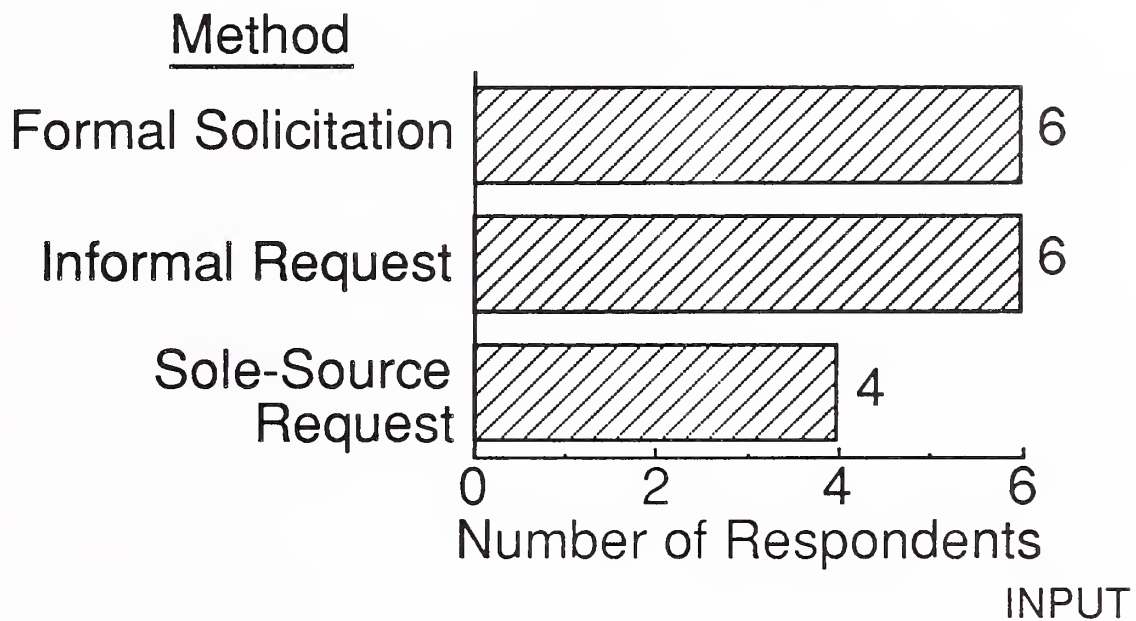
Typical Contract Performance Measurements



SO-124

Notes

Vendor Solicitation Methods



OU-82

Notes

Systems Operations Client Staffing

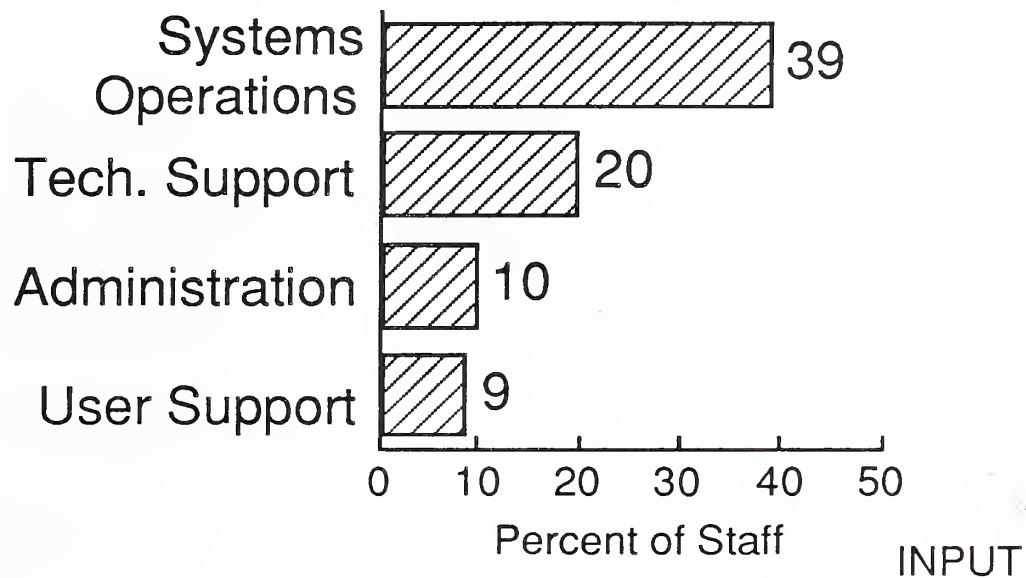
	Before Contracting	After Contracting
Bank	300	5
Government Agency	64	36
Retail Chain	70	0

INPUT

SO-117

Notes

Typical Vendor Personnel Profile



SO-133

Notes

Market Diversification

OU-90

INPUT

Notes

IS Outsourcing Areas

1. Systems operations
2. Applications management
3. Network operations
4. Desktop services

INPUT

OU-7

Notes

Outsourced Functions

Function	Number of Resp.	
	Yes	No
Processing Operations	20	1
Network Operations	10	11
Applications Management	10	11
Applications Maintenance	1	20
Desktop Services	7	14

OU-51

INPUT

Notes

Applications Management

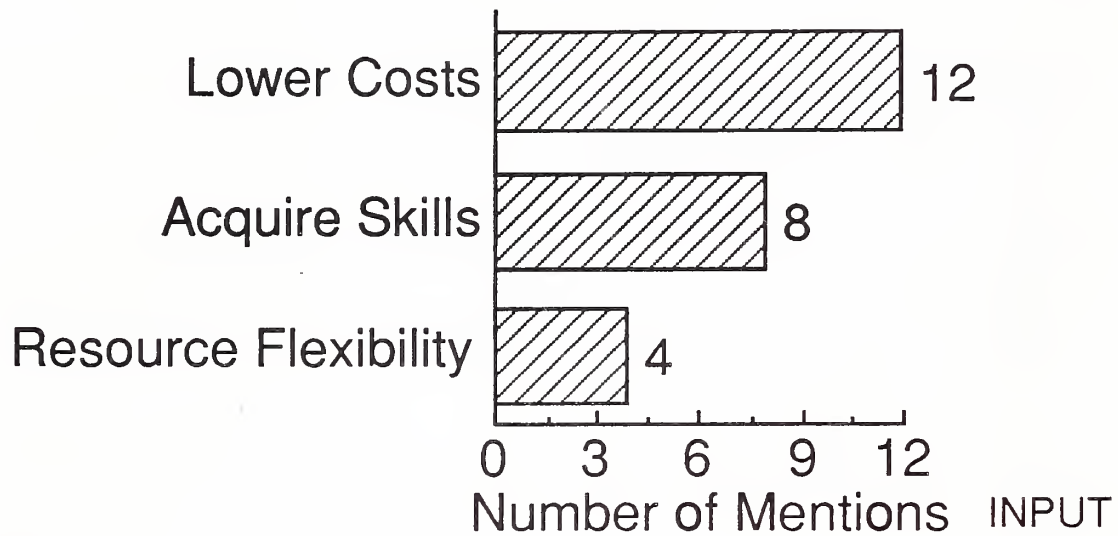
- Outsourcing of IS applications and IS operations
- Includes both maintenance and applications development

INPUT

SO-75

Notes

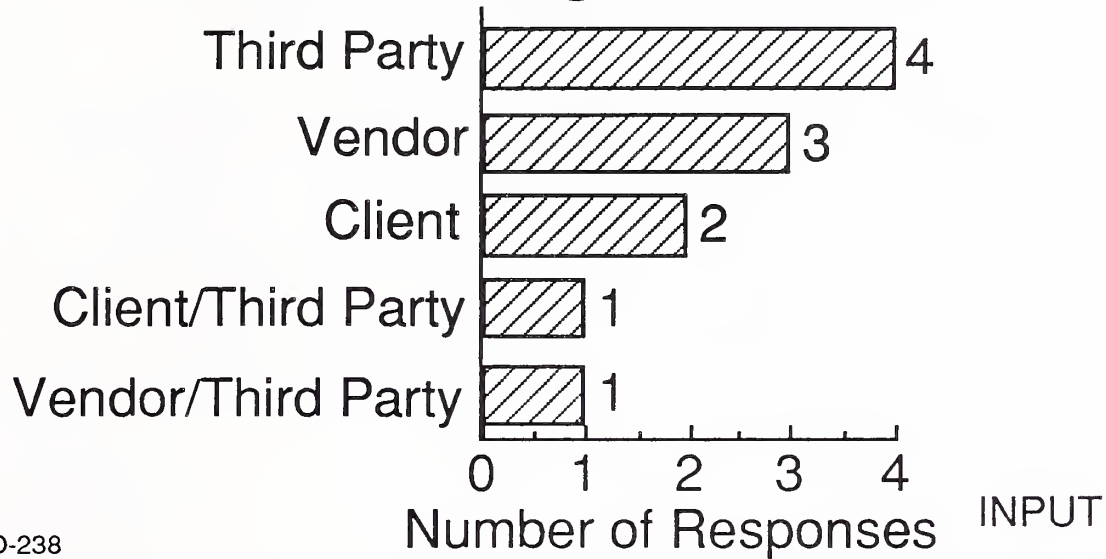
Buyer Motivation Outsourcing of Appl. Mgmt.



SO-237

Notes

Software Managed by Outsourcing Vendors



Notes

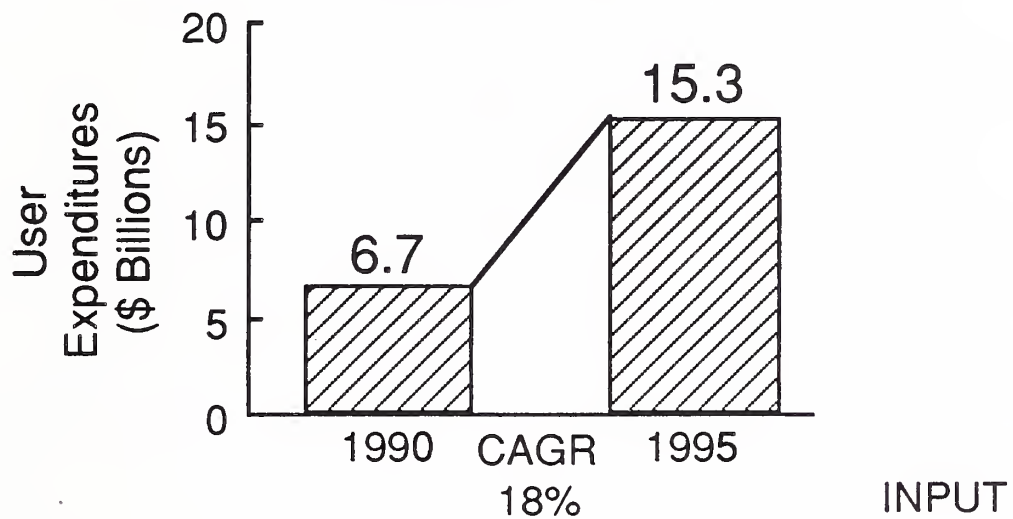
Outsourcing of Network Management

OU-56

INPUT

Notes

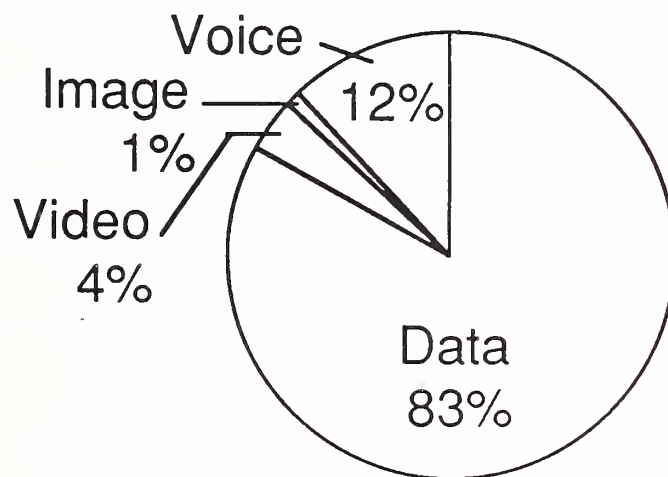
Network Management Expenditure Forecast, 1990-1995



SO-92

Notes

Network Operations Management Revenue

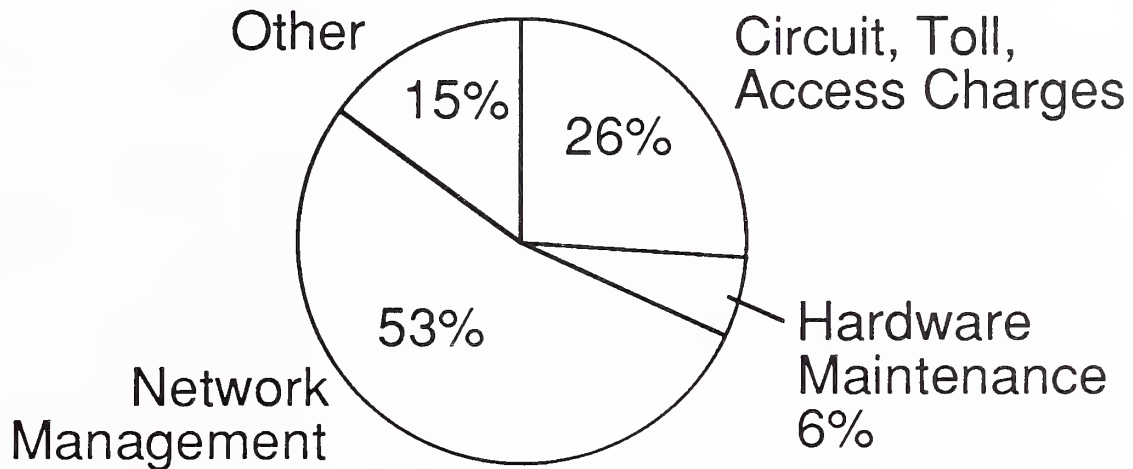


OU-61

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Notes

Vendor Revenue by Type of Service

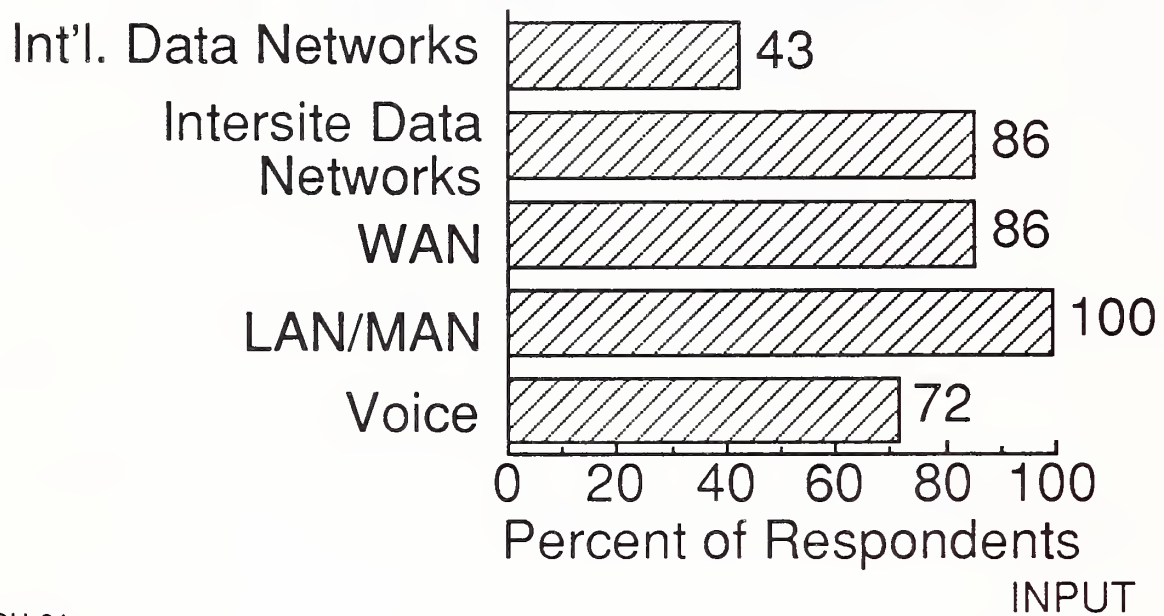


OU-60

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Notes

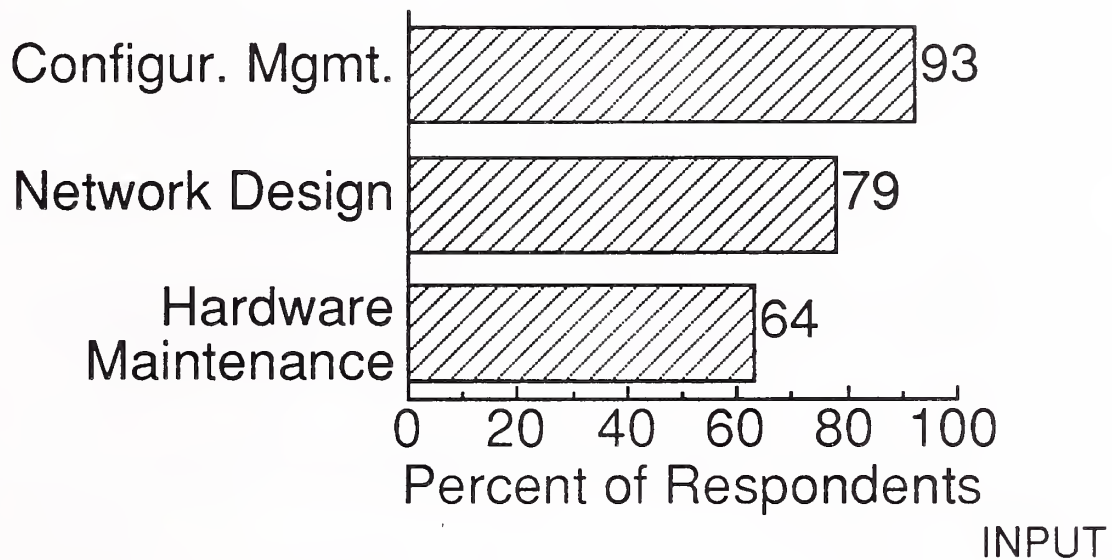
User Networks Outsourced



OU-64

Notes

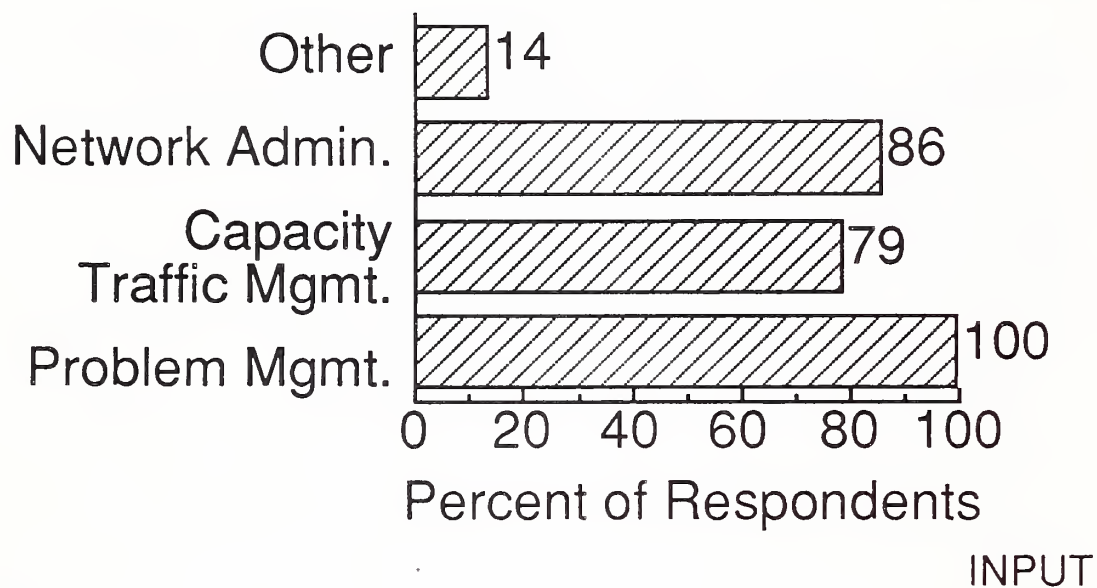
Vendor Functions Provided



OU-59

Notes

Vendor Functions Provided



OU-58

Notes

Desktop Services

A Key Outsourcing Opportunity

OU-65

INPUT

Notes

Elements of Desktop Services

- PC/workstation maintenance
- PC/workstation software installation

OU-66

INPUT

Notes

Elements of Desktop Services

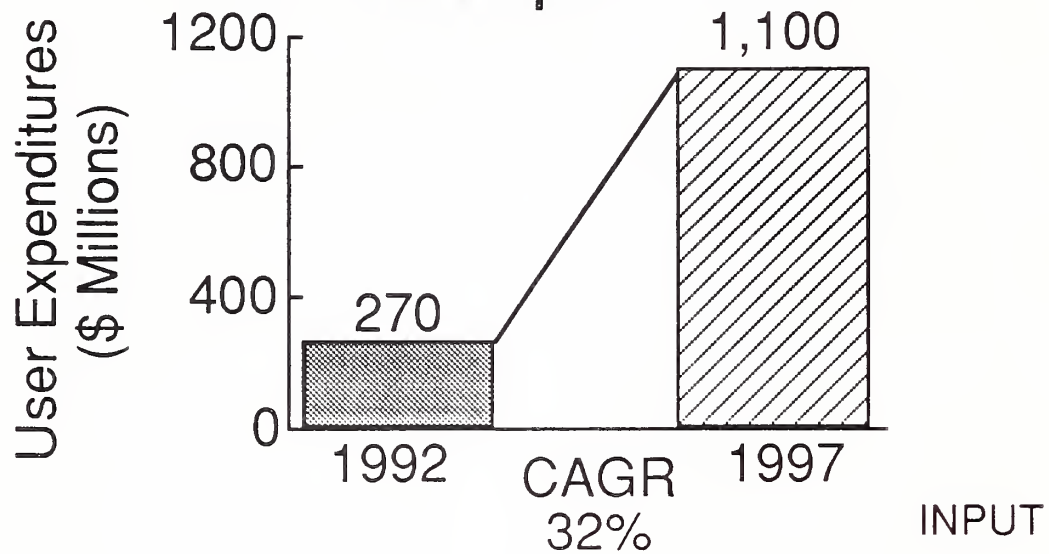
- LAN administration
- LAN expansion
- Help desk functions
- User training

OU-67

INPUT

Notes

Desktop Services Market Europe



OU-71

Notes

Driving Forces Desktop Services

- Core Business Focus
- Downsizing
- PC/LAN Based Applications
- Technological Change

OU-70

INPUT

Notes

Typical Desktop Contracts in the U.S.

OU-72

INPUT

Notes

JWP/Kodak

- Part III of large outsourcing contract (ISSC/DEC)
- Provide
 - PC/workstation maintenance
 - Software upgrade
 - Help desk services

OU-73

INPUT

Notes

EDS/GE

- Contract valued at \$500 million (5 yrs)
- Provides:
 - PC/workstation central purchasing
 - Establishment of product specs
 - PC/workstation maintenance
 - Software upgrade and training
 - Help desk

OU-74

INPUT

Notes

DEC/Blockbuster Video

- International contract
- Provides:
 - Implementation and start-up service
 - Connectivity to network
 - Help desk
 - Hardware and software upgrade

INPUT

OU-75

Notes

ISSC/Zale Corp.

- Part of large outsourcing contract
- Provides:
 - PC/workstation maintenance
 - Software upgrade
 - Help desk

INPUT

OU-76

Notes

Business Operations Outsourcing

OU-91

INPUT

Notes

Business Operations Market

- Potential market 2 to 5 times information systems expenditures
- Contractors will show reduction in overall costs of 25% or more

IS-38

INPUT

Notes

Business Operations Examples

- Insurance claims processing
- Telephone company yellow pages operation
- Credit card operations
- Coupon processing for retailers
- Fulfillment for direct marketing

INPUT

IS-39

Notes

Conclusions

- Outsourcing is revolutionary
 - Functional responsibility to vendor
 - Increased dependence for clients
 - Increased risk for vendor

INPUT

OU-46

Notes

Conclusions

- Outsourcing is revolutionary
 - Vendor/client partnerships
 - Vendor success tied to client success
 - Vendor provides all services

OU-47

INPUT

Notes

Conclusions

- Outsourcing revolution continues
 - Deals are getting bigger
 - Larger vendors most successful
 - More services being outsourced

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OU-48

Notes

The Outsourcing Revolution

A new way of doing
business . . . better

OU-49

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Notes

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